

**UNITED STATES DEPARTMENT OF AGRICULTURE  
RURAL DEVELOPMENT**

**Rural Business Cooperative Service  
Rural Housing Service  
Rural Utilities Service**

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**For Administrative Use Only**

**Missouri AN No. 1401 (1930-C)**

November 7, 2002

TO: All Rural Development Managers and  
Community Development Managers

FROM: GREGORY C. BRANUM  
State Director, Rural Development

SUBJECT: Amending RRH Loan Agreement/Resolution  
Reserve Requirements

PURPOSE/INTENDED OUTCOME: Due to increasing costs of repairs, the reserve requirements as stated in the loan agreement/resolution of a number of our Rural Rental Housing borrowers may no longer be adequate. This administrative notice provides guidance on the method you may use in amending the loan agreement/resolution to increase a borrower's reserve requirements.

COMPARISON WITH PREVIOUS AN:

This administrative notice replaces MO AN 1381 (1930-C) dated October 17, 2001, which has expired.

IMPLEMENTATION RESPONSIBILITIES:

Borrowers should be counseled on the need for adequate reserve funding levels. Due to limited loan funds available, it is more imperative than ever that borrowers recognize what current replacement costs are and how to plan to meet those demands in the future. Funding the reserve at the same level as 20 years ago will no longer meet the current replacement cost. Under current construction costs, using \$50,000 for 1 bedroom units, \$55,000 for 2 bedroom units and \$60,000 for 3 bedroom units would be more in line for replacement costs. For those borrowers who have fully funded their reserve account per our original agreement with them, we should encourage them to increase reserve account funding to cover present replacement costs.

The reserve account should primarily be used to meet the major capital expense needs of a complex. Using the reserve account funds for routine operating and maintenance expenses should be discouraged. For example, one or two refrigerators should be considered a routine O&M expense and factored in the proposed budget; otherwise, the reserve account will never reach it's fully funded level. At the time of the yearend report review, the borrower should be

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October 30, 2003

**FILING INSTRUCTION:** Preceding  
Rural Development Inst. 1930-C

requested to increase their reserve account in the next year's budget and not factor in reserve account withdrawals for what is considered routine operating and maintenance expense.

The following steps are recommended in amending the original loan agreement/loan resolution:

- 1) The borrower should submit their proposed budget with their request to increase their reserve funding level.
- 2) The budget will be reviewed by the Area Office and approved if acceptable. If the borrower has not addressed an appropriate reserve account funding level in their proposed budget, the budget should not be approved until Rural Development has counseled with the borrower on this subject. Each proposal will be reviewed on its own merit as situations may vary by borrower. For example, does the complex have rental assistance to support a possible rent increase?
- 3) If approved, the borrower will be advised to revise their loan agreement/resolution similar to the Attachment 1 or 2. As a reminder, all borrowers that are corporations or public bodies, and all corporations serving as a general partner of a partnership-type borrower must pass a separate resolution adopting the Amendment to the Loan Agreement/Resolution. Please refer to Attachment 3 for a "Sample" Resolution of the Board of Directors. Once executed, the borrower will provide the original signed amendment along with a copy of the Resolution of the Board of Directors, if applicable. The amendment must be attached to the Loan Agreement/Resolution.

Further review of the amended Loan Agreement/Resolution by our office or the Office of General Counsel will not be necessary unless you have questions or concerns. Any questions regarding this AN can be directed to the Rural Housing Section, and we will be glad to help you.